

Message Text

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PAGE 01 MANILA 11022 01 OF 02 111125Z

21

ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 NEA-10 IO-10 H-02 L-03 PA-01

PRS-01 SP-02 AID-05 EB-07 NSC-05 CIEP-01 SS-15 STR-04

OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00

USIA-06 XMB-02 OPIC-03 LAB-04 SIL-01 /101 W

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P 110805Z AUG 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 6360

INFO AMEMBASSY SEOUL PRIORITY

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 11022

USADB

E.O. 11652: ADS, DECLAS 11/11/75

TAGS: EAID, EFIN, KS

SUBJECT: PROPOSED ADB LOAN - ROAD IMPROVEMENT PROJECT (KOREA)

FOR NAC AGENCIES

REF: A) MANILA 626; B) TRSY 436; C) MANILA 1166

(ALL 1974 REFS)

SUMMARY: ADB MANAGEMENT PROPOSES \$43 MILLION EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES TO REPUBLIC OF KOREA (ROK) FINANCE FOREIGN COST OF ROAD IMPROVEMENT PROJECT INCLUDING UPGRADING SECTION OF NATIONAL HIGHWAYS AND ONE PROVINCIAL ROAD SECTION TOTALING ABOUT 410 KILOMETERS (KM) AND CONSTRUCTING REINFORCED CONCRETE BRIDGES ON THESE ROAD SECTIONS; CONSULTANT SERVICES TO ASSIST CONSTRUCTION SUPERVISION. USADB RECOMMENDS FAVORABLE NAC ACTION.

1. ADB DOC. R71-75 WITH ATTACHMENTS DESCRIBING

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PAGE 02 MANILA 11022 01 OF 02 111125Z

PROPOSED LOAN TOUCHED ADDRESSEES JULY 28. BOARD

CONSIDERATION SCHEDULED 19 AUGUST.

2. ADB MANAGEMENT PROPOSING \$43 MILLION LOAN FROM ORDINARY CAPITAL RESOURCES TO REPUBLIC OF KOREA. PROCEEDS WILL FINANCE FOREX COST OF IMPROVING 11 SECTIONS OF NATIONAL HIGHWAYS AND ONE PROVINCIAL ROAD SECTION TOTALING ABOUT 410 KM TO TWO-LANE PAVED STANDARD AND 3500 METERS REINFORCED CONCRETE BRIDGES ON THESE SECTIONS; CONSULTING SERVICES TO ASSIST CONSTRUCTION SUPERVISION; INTEREST DURING CONSTRUCTION AND 7.9 PERCENT OF LOCAL COSTS. PROPOSED TERMS ARE 23 YEAR AMORTIZATION INCLUDING 3 YEAR GRACE PERIOD, 8-3/4 PERCENT INTEREST. REPUBLIC OF KOREA TO BE BORROWER, MINISTRY OF CONSTRUCTION (MOC) TO BE EXECUTING AGENCY.

3. PROJECT AREA COMPRISED OF 3 BROAD SUBDIVISIONS, WEST COASTAL, INLAND, AND EAST COASTAL, DIFFERING IN SOIL TYPE, ACCESSIBILITY, SOCIO-ECONOMIC, CLIMATIC CONDITIONS. WEST COASTAL SUBDIVISION REACHING INLAND FOR 50 KM, IS MOSTLY LEVEL AREA, ECONOMY WELL-ESTABLISHED WITH RICE AND BARLEY CULTIVATION. AREA IS SITE VARIOUS IRRIGATION, AG DEVELOPMENT PROJECTS RESULTING FROM UNDP-SPONSORED YONGSANG AND GEUM RIVER BASIN DEVELOPMENT SCHEMES, INCLUDES IBRD AND JAPANESE-ASSISTED DUMGANG DAM, TONGJUGNAG AND OKSEO IRRIGATION PROJECTS. THREE PROJECT ROADS - NATIONAL ROADS NOS. 22-1, 23-4 AND PROVINCIAL ROAD NO. 706 LOCATED THIS SUBDIVISION.

4. INLAND SUBDIVISION ALSO LARGELY RICE AND BARLEY GROWING AREA PLUS FRUIT AND VEGETABLES. HOWEVER, STEEP SLOPES, RIGOROUS CLIMATE AND POOR ACCESSIBILITY HAS RESULTED AREA BEING LARGELY BYPASSED 1960'S DEVELOPMENT, HAS LOW PER CAPITA INCOME, HIGH MIGRATION. AREA NOW GIVEN PRIORITY BY ROK FOR DEVELOPMENT, SAE MAUEL MOVEMENT ACTIVE IN REGION; NAMGANG AND HWANGGANG WATERSHED PROJECTS WITH STUDIES FINANCED BY ADB AND UNDP, AND JIM MOUNTAIN PARK SITE OF PROPOSED TOURISM INVESTMENT ARE IN INLAND AREA. NINE REMAINING PROJECT LIMITED OFFICIAL USE

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PAGE 03 MANILA 11022 01 OF 02 111125Z

ROADS ARE LOCATED INLAND SUBDIVISION.

5. EAST COASTAL SUBDIVISION EXCLUDED FROM PRESENTLY PROPOSED PROJECT, BUT ROK INTENDS SEEK ADB FINANCING 1976 FOR FOUR OTHER ROAD IMPROVEMENTS.

6. PROPOSED LOAN OUTCOME OF \$550,000 ADB TECHNICAL ASSISTANCE (TA) LOAN AND GRANT APPROVED JANUARY 1974

FINANCING FEASIBILITY STUDIES AND ENGINEERING DESIGNS
FOR 1300 KM OF LINES IN NATIONAL HIGHWAY NET IN
SOUTHERN PART OF KOREA AND FOR RECONSTRUCTING 166
NARROW BRIDGES ON OTHER IMPROVED ROADS.

7. U.S. CONSULTANT, WILBER SMITH ASSOCIATES (WSA)
CONDUCTED TA STUDIES AND DIRECTED NINE LOCAL CONSULTANTS
IN SURVEYS, INVESTIGATIONS AND ENGINEERING DESIGNS.
STUDY DIVIDED INTO TWO PACKAGES WITH 810 KM IN PACKAGE
I AND PACKAGE II REMAINING 560 KM PLUS 166 BRIDGES.
PROPOSED PROJECT LOAN IS FIRST PHASE OF PACKAGE I.
WSA DRAFT FINAL REPORT ESTABLISHED PRIMA FACIE FEASI-
BILITY FOR RECOMMENDED ROAD IMPROVEMENTS.

8. ECOMIMIC FEASIBILITY OF EACH SECTION DETERMINED
BY TRAFFIC FLOW AND COMPOSITION ANALYSIS, COSTS OF
MAINTAINING EXISTING UNPAVED ROAD SURFACE COMPARED TO
MAINTENANCE AFTER BITUMINIZED PAVING; USER COST SAVINGS.
FOR PROJECT AS A WHOLE, WEIGHTED AVERAGE ECOMIMIC
INTERNAL RATE OF RETURN CALCULATED AT 29.9 PERCENT
ESTIMATE INCLUDED ASSUMPTION LOWER BUS FARES ON PAVED
ROADS; TRUCK RATE SAVINGS WOULD BE SHARED BY PRODUCERS,
TRADERS, CONSUMERS; SPVLAGE RATE OF AG PRODUCTS WOULD
BE REDUCED AT RATE OF \$50-60 PER HOUSEHLLD
PER YEAR; MANY UNQUANTIFIABLE SOCIO-ECONOMIC BENEFITS
FORESEEN FROM BETTER ACCESS TO AREAS.

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PAGE 01 MANILA 11022 02 OF 02 111106Z

16

ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 NEA-10 IO-10 H-02 L-03 PRS-01

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USIA-06 XMB-02 OPIC-03 LAB-04 SIL-01 /101 W

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P 110805Z AUG 75

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LIMITED OFFICIAL USE SECTION 2 OF 2 MANILA 11022

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9. AS NOTED IN REFS CITED AND ABOVE, AG PRODUCTION IS PRIMARY EXPLOITABLE RESOURCE IN PROJECT AREA. TRANSPORT IMPROVEMENT RESULTING FROM PROJECT WILL FACILITATE ATTAINMENT FOOD SELF-SUFFICIENCY GOALS, BETTER INTEGRATE ISOLATED RURAL AREAS WITH URBAN CENTER MARKETS AND SERVICES. GOVT HAS ACCORDED HIGH PRIORITY IN THIRD 5-YEAR PLAN OBJECTIVE UPGRADING ENTIRE NATIONAL HIGHWAY NET TO ACCELERATE ECONOMIC GROWTH.

10. TOTAL COST OF PROJECT ESTIMATED AT \$86.75 MILLION OF WHICH 41.6 PERCENT OR \$36.05 MILLION IS FOREX COMPONENT. \$36.05 COMPRISED OF CIVIL WORKDS COSTS OF \$30.84 WHICH INCLUDES MATERIALS - 11.78; DEPRECIATION OF CONSTRUCTION PLANT - 16.84 AND CONTRACTOR OVERHEAD - 2.22 (ALL ABOVE IN MILLIONS); ENGINEERING SERVICES \$1 MILLION AND CONTINGENCIES \$4.21 MILLION. IN ADDITION TO FOREX PROJECT COSTS, GOVE HAS REQUESTED AND BANK PROPOSES FINANCE PART (7.9 PERCENT) LC COSTS, \$4 MILLION AND CAPITALIZE INTEREST DURING CONSTRUCTION, \$2.5 MILLION. LOAN WOULD ALSO INCORPORATE AT NEW TERMS AND LIMITED OFFICIAL USE

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PAGE 02 MANILA 11022 02 OF 02 111106Z

AMORTIZATION, \$450,000 TA ENGINEERING LOAN MADE 1974 (REF A REFERS). GOVT ASSURES REMAINING LC NOT FINANCED BY BANK TOTALING \$50.7 MILLION EQUIV WOULD BE ALLOCATED AS REQUIRED TO IMPLEMENT PROJECT ON SCHEDULE.

11. CIVIL WORKS FOR PROJECT TO BE CARRIED OUT BY PREQUALIFIED CONTRACTORS ENGAGED BY INTERNATIONAL COMPETITIVE BIDDING IN ACCORD BANK'S GUIDELINES. CONTRACTS TO BE ON UNIT PRICE WITH CONTRACTOR PROVIDING EQUIPMENT AND MATERIALS. ON BASIS OF ADB AND IBRD EXPERIENCE, EXPECTATION IS COMPETENT KOREAN CONTRACTORS WOULD BE AWARDED CIVIL WORKD, HOWEVER BIDS TO BE PACKAGED TO ATTRACT INTERNATIONAL TENDERS.

12. UNDER PRIOR BANK TA, WSA WAS ENGAGED CONDUCT FEASIBILITY, ENGINEERING STUDIES, DIRECT LOCAL CONSULTANTS. GOVT CONSIDERS WSA PERFORMANCE SATISFACTORY, PROPOSE RETAIN CONTINUITY WITH SAME CONSULTANT THROUGH EXECUTION STAGE, WILL SEEK ENGAGE FURTHER WSA SERVICES THROUGH NEGOTIATIONS. IF NEGOTIATIONS FAIL, NEW CONSULTANTS WOULD BE SELECTED IN ACCORD BANK'S GUIDE-

LINES.

13. GOVT ASSURES RIGHT-OF-WAY LAND NEEDED WILL BE ACQUIRED, WILL EXECUTE NO CIVIL WORKS CONTRACTS LIKELY TO ENCOUNTER RIGHT-OF-WAY PROBLEMS. ALSO, UPON COMPLETION MOC TO ASSUME FULL RESPONSIBILITY FOR PROJECT ROAD MAINTENANCE. FROM JANUARY 1976 ONWARDS, PROVINCIAL AUTHORITIES WILL FOREGO ALL NATIONAL HIGHWAY MAINTENANCE AUTHORITY AND RESPONSIBILITY, AND GOVT ASSURES MOC BUDGET WILL BE INCREASED TO ASSURE MAINTENANCE OF ALL PROJECT ROADS IN GOOD CONDITION, BANK CONFIDENT IN MOC CAPABILITY.

14. MOC, EXECUTING AGENCY, HAS BEEN FOUND BY BANK ON RECENT HIGHWAY PROJECTS TO BE PERFORMING SATISFACTORILY AND IN ACCORD LOAN AGREEMENTS. MOC UNDERGOING REORGANIZATION PROPOSED BY FRENCH CONSULTING FIRM, BECOM, AS RESULT IBRD-FINANCED HIGHWAY MAINTENANCE STUDY. REORGANIZATION INCLUDES NINE NEW TERRITORIAL CONSTRUCTION LIMITED OFFICIAL USE

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PAGE 03 MANILA 11022 02 OF 02 111106Z

AND MANAGEMENT OFFICES DEEMED BY BANK TO INCLUDE PROFESSIONAL AND TECHNICAL EXPERTISE TO SUPERVISE PROJECT. IBRD ALSO FINANCING NECESSARY MOC PLANT AND EQUIPMENT PROCUREMENT.

15. CIVIL WORKS CONTRACTS TO BE AWARDED FIRST QUARTER 1976 AND ALL EXPECTED TO BE COMPLETED WITHIN 18 MONTHS OF CONTRACTOR MOBILIZATION. CONTRACTORS RETAIN MOST MAINTENANCE FUNCTIONS FOR 12 MONTH PERIOD FOLLOWING COMPLETION OF CONSTRUCTION.

16. PROJECT CONSIDERED TECHNICALLY SOUND AND ECONOMICALLY VIABLE. USADB CONSIDERS PROJECT REASONABLY PHASED FOLLOW-ON TO PRIOR TA ENGINEERING LOAN AND RECOMMENDS FAVORABLE NAC ACTION. REQUEST U.S. MISSION SEOUL'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972. SULLIVAN

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Message Attributes

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Disposition Approved on Date:
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Disposition Event:
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